

Goal:

Foster an ever-strengthening ecosystem of foreign and domestic firms, prepared to meet the challenges of a 21st century global economy.

Objective:

Probe key industries for areas of FDI and export growth opportunity that support increased specialization, skills differentiation, and the broad goals of prosperity and economic inclusion.

1. Harness business retention and expansion efforts for best M&A outcomes among existing foreign and domestic companies, particularly in the middle market
2. Increase exporting activity among middle market firms
3. Expand foreign direct investment in traditionally strong manufacturing sectors
4. Cultivate foreign direct investment from emerging economies in Asia and Latin America. Focus efforts within selected sectors at the intersection of FDI, growth-oriented middle market firms, and high-wage/high-skill jobs

Acknowledgements

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Brookings
1775 Massachusetts Avenue, NW
Washington D.C. 20036-2188
telephone: 202.797.6000
fax: 202.797.6004
www.brookings.edu

Metropolitan Policy Program
telephone 202.797.6139
fax 202.797.2965
web site brookings.edu/metro



Strategies

I. Unleash the global potential of the middle market

Implement robust programs for business retention and expansion, focused on increasing the global engagement of a targeted set of middle market firms. Encourage succession planning. Establish an M&A advisory council.

II. Foster high wage, specialized activity in established and emerging industry clusters

Cultivate knowledge and innovation-focused activities that advance development of industry clusters and command higher wages. Software/IT, chemicals and life sciences hold growing opportunity.

III. Focus on Key Global Geographic Targets for FDI and Exports Growth

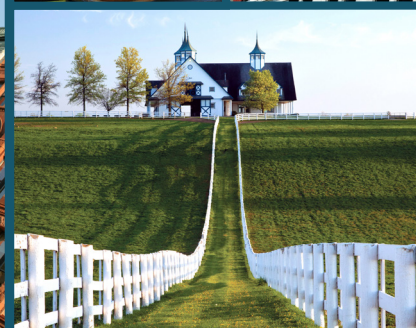
Concentrate efforts among FDI sources (including Germany, Japan, UK, Switzerland, Canada, and Italy) with a history of investing in priority sectors in Kentucky and neighboring states. Evaluate growth trends and opportunities in other sources of investment, including Mexico and China.

IV. Build the workforce to support increasingly high value activity in industry clusters

Support and expand degree attainment programs, stackable certification opportunities, apprenticeships, and career path awareness-raising efforts among current and future workforce. Grow, attract, and retain global and local talent with 21st century skills.

BEAM

BLUEGRASS ECONOMIC ADVANCEMENT MOVEMENT TRADE AND INVESTMENT PLAN SYNOPSIS



For more information, please contact:

Jeanine Duncliffe
Director of International Economic Development
Louisville Forward, Louisville Metro Government
Jeanine.duncliffe@louisvilleky.gov
502.475.1981

Kevin Atkins
Chief Development Officer
Office of Lexington Mayor Jim Gray
katkins@lexingtonky.gov
859.258.3100

The complete BEAM Global Trade and Investment Plan is available online.

Introduction

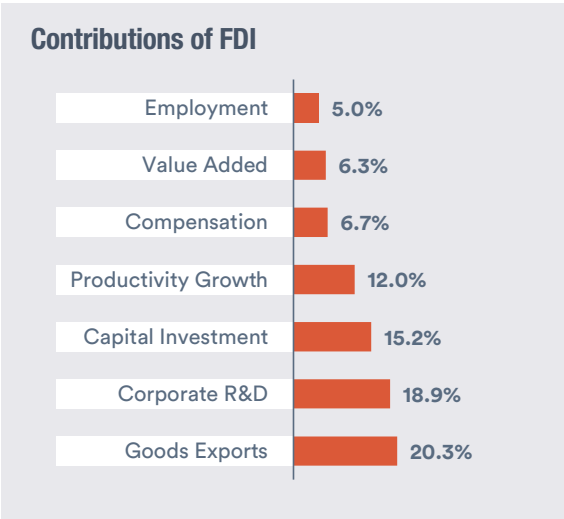
Mayor Greg Fischer of Louisville and Mayor Jim Gray of Lexington have ambitious goals for prosperity in the Bluegrass Economic Advancement Movement (BEAM) region. These include fostering thriving industry clusters, diverse employment opportunity, and nimble adaptation to the demands of a 21st century economy. In the 22 BEAM counties (18 in Kentucky and 4 in Indiana) anchored by Louisville and Lexington, and across the U.S., foreign investment is a key element of success in these endeavors.

Foreign-owned firms in the U.S. make outsized contributions to the fundamental components of vibrant economic centers, accounting for significant innovation, research, and exports production, in addition to high-wage jobs. The BEAM Global Trade and Investment Plan, developed in collaboration with the Brookings Global Cities program, examines the importance of foreign direct investment (FDI), particularly in the largest U.S. metropolitan areas. The plan proposes the way forward for metropolitan-led cultivation of FDI that helps build a resilient and growing BEAM economy for all.

Contributions of FDI

Foreign firms employ about five percent of the private sector in large metropolitan areas. Yet, they account for 7 percent of compensation, 12 percent of productivity growth, nearly 19 percent of corporate research and development, and over 20 percent of exports.

For manufacturing centers like the BEAM region, which are actively pursuing the future of advanced industries, FDI plays a critical role directly and indirectly in cultivating the production strengths, skills networks, growth trajectories, and spin-off activities that foster sophisticated industry clusters in competitive cities. The Brookings Institution found that production inputs concentrate in metropolitan areas, leading to industry specializations which, in turn, attract FDI. In the BEAM region, foreign investments have contributed to performance in automotive, chemical, steel, and plastics manufacturing, as well as to the signature bourbon and thoroughbred horse industries. The manufacturing sector accounted for nearly 62 percent of all BEAM region jobs in foreign-owned enterprises (FOEs) in 2011.



BEAM Region FOE Employment by Sector		
INDUSTRY	EMPLOYEES	Share of FOE Employment
Manufacturing	31,876	61.9%
Wholesale Trade	6,023	12.7%
Admin. Support, Waste Mgmt.	2,405	5.4%
Professional & Technical Services	2,127	4.6%
Information	870	4.4%
Retail Trade	1,826	3.6%
Health Care & Social Assistance	1,277	3.4%
Accommodation & Food Services	1,369	3.2%
Transportation & Warehousing	1,292	3.2%
Finance & Insurance	1,165	2.9%
Other Services (except Pub. Admin.)	482	1.1%
Construction	299	1.1%
Mining, Oil, & Gas Extraction	50	1.1%
Agriculture, Forestry, Etc.	90	1.0%
Arts, Entertainment, Recreation	240	0.8%
Real Estate	76	0.3%
Mgmt. of Companies & Enterprises	2	0.2%
Educational Services	7	0.0%

Source: Brookings Institute, 2011.

The Changing World of FDI: Rise of the Middle Market

The massive greenfield investments that helped establish FDI across the country in the second half of the 20th century have become less common. In the U.S. as a whole, only 26 percent of foreign-owned establishment (FOE) employment in 2011 was in establishments that entered the U.S. through greenfield investments after 1991. The average size of these establishments was relatively small—33 employees at the time of investment. Nationwide, only eight percent of FOEs employ more than 500 workers.

Between 1992 and 2008, 87 percent of capital investment that entered the U.S. market did so through mergers and acquisitions. In terms of new FDI jobs in the U.S. (not counting expansion activity among existing FOEs), mergers and acquisitions (M&A) accounted for 68 percent of new FDI jobs in the average year between 1991 and 2011, while only 32 percent was due to

greenfield investments. Brookings data shows that as of 2011, 56 percent of FOEs that entered the BEAM region since 1991 did so through M&A. Across the country, middle market firms (defined by Brookings as having at least 20 employees and \$10 million - \$1 billion in yearly revenue) are the most common targets for M&A.

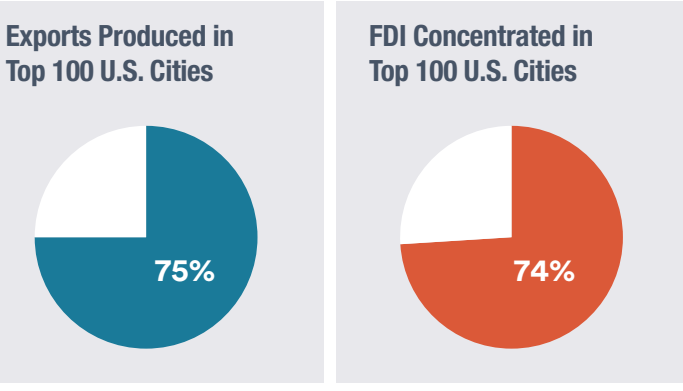
These findings hold implications for the deployment of economic development efforts to recruit, maintain, and expand foreign investments, suggesting that multiple smaller projects are at least as important as—and for most communities are more accessible than— occasional large investments. They also underscore the extent to which domestic middle market firms figure broadly in the health and evolution of a robust economy. In both large and small M&A transactions, a domestic firm’s customer and supplier networks, local relationships, and position within its industry are all important assets, valued by domestic and foreign buyers alike.

The Intersection Between Exports and FDI

Export activity brings similar and complementary benefits to those fostered by FDI; it acts as cause and consequence of strong industry clusters, innovative and entrepreneurial cultures, and globally fluent companies. As is the case with FDI performance, the nation’s top 100 metropolitan areas account for the majority of U.S. exports. Seventy-five percent of all U.S. exports are produced in these cities. This is not coincidental, given foreign firms’ critical contributions to U.S. exports production. Just as FDI contributes more than jobs, export production adds more than sales to U.S. companies. Research

shows that exporting firms withstand domestic downturns better and compensate employees more than non-exporting firms.

In exporting, as in FDI, signs of the potential of the middle market abound. Even though small and mid-sized businesses (SMEs) comprise 98 percent of all exporters, they contribute less than one third of known export value. Fifty-eight percent of exporting SMEs sell to only one foreign country. While large exporters account for much of the country’s exporting dollar value, there is enormous growth potential among SMEs. Many of these are middle market firms.



Seventy-four percent of all FDI in the U.S. is concentrated in the top 100 metropolitan areas by population. These cities are poised to reap great benefits from future FDI opportunities. Louisville is ranked 43rd among U.S. metros by size. At 107th, Lexington (MSA) falls just below the top 100. The BEAM region would rank 37th among top 100 U.S. metros by population if it were a united metropolitan area. In these and other top metros, efforts to examine and improve FDI performance will help determine the country’s future competitiveness in FDI.

Vision for the Region

In FDI cultivation as in other areas of economic development, success lies in tending tirelessly to the existing industry strengths, businesses and workforce that undergird the region, while strategically targeting geographies and specialties that will assure the region’s trajectory plots that of emerging opportunity and demand in an ever more competitive world.